

MILFORD MUNICIPAL UTILITIES
INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
JUNE 30, 2009 AND 2008

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**MILFORD MUNICIPAL UTILITIES
MILFORD, IOWA**

June 30, 2009

OFFICIALS
(Before January 2009)

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
James Studer	Trustee (Chairman)	December 31, 2013
Steve Feld	Trustee (Vice Chairman)	December 31, 2012
Keith Wurtz	Trustee	December 31, 2008
Tom Cooper	Trustee	December 31, 2009
Don Olsen	Trustee	December 31, 2011

OFFICIALS
(After January 2009)

James Studer	Trustee (Chairman)	December 31, 2013
Steve Feld	Trustee (Vice Chairman)	December 31, 2012
Keith Wurtz	Trustee	December 31, 2014
Tom Cooper	Trustee	December 31, 2009
Don Olsen	Trustee	December 31, 2011
Robert Sewell	General Manager	
Joyce McCrea	Office Manager/Board Secretary	

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Milford Municipal Utilities
Milford, IA 51351

We have audited the accompanying financial statements of the business-type activities and each major fund of Milford Municipal Utilities (Utility), a component unit of the City of Milford, Iowa as of and for the years ended June 30, 2009 and 2008, which collectively comprise Milford Municipal Utilities' basic financial statements listed in the table of contents. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Milford Municipal Utilities at June 30, 2009 and 2008, and the respective changes in the funds' financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2009 on our consideration of Milford Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 29 and 30 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Milford Municipal Utilities' basic financial statements. Other supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

William & Company, P.C.

Certified Public Accountants

Spencer, Iowa
October 29, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Milford Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended June 30, 2009. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2008-09 FINANCIAL HIGHLIGHTS

- ◆ The Utilities revenues decreased 8.4%, or approximately \$293,000, from fiscal 2008 to fiscal 2009.
- ◆ Expenses decreased by approximately \$1,000, in fiscal 2009 from fiscal 2008.
- ◆ The Utility's net assets increased 2.9% or approximately \$248,000 during 2009.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Utility as a whole and present an overall view of the Utility's finances.

Fund financial statements report the Utility's operations in more detail by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year.

The Other Supplementary Information in Schedule 1 is unaudited and provides detailed information about the usage levels of each utility.

REPORTING THE UTILITIES FINANCIAL ACTIVITIES

Fund Financial Statements

Milford Municipal Utilities utilizes one kind of fund:

Proprietary funds account for the Utility's Enterprise Funds. Enterprise Funds are used to report business type activities. The Utility maintains two Enterprise Funds to provide separate information for the electric and water funds, all are considered to be major funds of the utility.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in net assets

Net Assets of Business Type Activities		
	Year ended June 30,	
	2009	2008
Current and other assets	\$ 3,162,621	\$ 4,273,465
Capital assets (net of depreciation)	10,586,707	10,102,339
Total assets	13,749,328	14,375,804
Long-term debt outstanding	4,465,196	4,960,504
Other liabilities	369,359	748,846
Total liabilities	4,834,555	5,709,350
Net assets:		
Invested in capital assets	6,447,391	5,141,835
Restricted	133,323	90,671
Unrestricted	2,334,059	3,433,948
Total net assets	\$ 8,914,773	\$ 8,666,454

The following analysis focuses on the change in net assets for the combined divisions of MMU:

Changes in Net Assets of Business Type Activities		
	Year ended June 30,	
	2009	2008
Revenues:		
Charges for service	\$ 3,185,631	\$ 3,478,923
General revenues:		
Unrestricted investment earnings	27,318	86,861
Total revenues	3,212,949	3,565,784
Program expenses:		
Business type activities	2,964,630	2,965,718
Total expenses	2,964,630	2,965,718
Increase in net assets	248,319	600,066
Net assets beginning of year	8,666,454	8,066,388
Net assets end of year	\$ 8,914,773	\$ 8,666,454

INDIVIDUAL MAJOR FUND ANALYSIS

As Milford Municipal Utilities completed the year, its enterprise funds reported a combined fund balance of \$8.91 million, an increase of approximately \$248,000 under last year's total of \$8.67 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- Electric Fund revenues showed an decrease of \$299,998 due to decreased sales to customers. The Electric Fund expenses increased \$20,157, attributable to the increase in expense associated with interest and depreciation expense. The ending fund balance was \$6,094,839, an increase of \$198,849 from last year.
- Water Fund revenues increased by \$6,706 during 2009 as compared to 2008, due to a rate increase in January. Expenses decreased \$21,245, which can be attributed to decrease in plant maintenance and sub-contractor expense as compared to the prior year. The ending fund balance was \$2,819,934, an increase of \$49,470 from the prior year.

BUDGETARY HIGHLIGHTS

MMU's disbursements for business type activities did not exceed the budgeted limit for 2009

CAPTIAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, MMU had approximately \$10.6 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a net increase (including additions and deletions net of depreciation) of approximately \$484,000 or 4.8 percent as compared with last year. Depreciation charges totaled \$453,531 for the fiscal year 2009 and total accumulated depreciation of \$8,637,235 at June 30, 2009. See Note 3 to the financial statements for more information about the Utility's capital assets.

LONG TERM DEBT/LIABILITIES

At June 30, 2009, MMU had \$4,465,196 in revenue bonds outstanding compared to \$4,960,504 at June 30, 2008. Additional information about the Utility's long-term debt is presented in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Milford Municipal Utilities remains committed to investing in the necessary capital improvements and major maintenance items on each distribution system enabling continued delivery for the utmost in reliable products and services.

For 2009, the MMU electric department had a new substation transformer installed along with a new industrial circuit and associated equipment in the substation. In 2008 and 2009, Milford Municipal Utilities Electric department has planned an extensive construction and reconstruction project that will involve several parts of community.

Consistent with the need to invest for the future, Milford Municipal Utilities joined with other Cities and Utilities back in 1962 to purchase power from the dams on the Missouri River. We have enjoyed receiving this renewable energy ever since. You could say that Milford had the foresight 47 years ago to invest in renewable energy. In 1976 MMU power supplies were once again getting tight and needed to invest in an additional power source, so MMU became one of the owners of the Neal #4 Generating Station south of Sioux City. In 1997 MMU put an additional 6 MW of diesel generators to the existing 1 MW of older generation in our local power plant, of which all are used for peaking and emergency power use. Once again MMU joined with other Iowa utilities to take the lead in partnering in renewable energy sources by moving into wind generation. MMU has a share in the Hancock Wind Farm that was put up in 2005 south of Ventura, Iowa in which we received 781,370 kWh last year. MMU also has a share in the Crosswinds Wind Farm south of Ruthven in which we received 715,269 kWh of electricity in 2008. This amounts to a combined total of 38% of our requirements for renewable energy. MMU is looking into another wind farm that we hope to receive an additional 3,150,000 kWh's per year which would give us a

total of 47% of our total load requirements. So you can see the goal is simple: try to use proven technologies (like wind) in new ways to control energy costs, improve air quality by enhancing wind energy, and increase Iowa's energy supplies while helping the environment. Even with the additional wind resources MMU will still need a reliable baseload or intermediate resource to cover our expected load growth, replace existing aging power supplies, and to cover periods when the wind doesn't blow. MMU had planned to purchase 2 MW of Sutherland Generating Station Unit 4 near Marshalltown, with several other private and consumer owned utilities in Iowa. Unfortunately Alliant Energy, the main project participant, chose to cancel the plant due to actions taken by the Iowa Utilities Board. MMU is now exploring other options to replace Sutherland to ensure a safe, reliable backup to wind generation. This includes possible agreements with other power suppliers and the installation of natural gas powered turbines.

For the Water Department, we are doing a study in conjunction with the City of Milford to coordinate the replacement of water mains with the streets and sewer lines that need to be replaced

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of MMU's finances and operating activities. If you have questions about this report or need additional information, please contact management at 806 N Ave, Milford, IA.

MILFORD MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
JUNE 30, 2009 AND 2008

	Business-Type Activities	
	2009	2008
Assets:		
Cash and Cash Equivalents	\$ 566,142	\$ 987,007
Accounts Receivable	363,073	354,474
Inventory	1,206,964	750,185
Other Current Assets	248,097	83,728
Restricted Assets	738,251	2,052,408
Other Assets	40,094	45,663
Capital Assets Not Being Depreciated	1,136,933	901,264
Capital Assets Being Depreciated - Net of Accumulated Depreciation	9,449,774	9,201,075
Total Assets	13,749,328	14,375,804
Liabilities:		
Accounts Payable	244,563	627,467
Accrued Interest	17,157	18,502
Salaries and Benefits Payable	23,805	27,146
Accrued Expenses	37,446	31,491
Consumers' Deposits	46,388	44,240
Long-Term Liabilities:		
Due or Payable Within One Year:		
Revenue Bonds/Notes	458,840	438,549
Due or Payable After One Year:		
Revenue Bonds/Notes	4,006,356	4,521,955
Total Liabilities	4,834,555	5,709,350
Net Assets:		
Invested in Capital Assets - Net of Related Debt	6,447,391	5,141,835
Restricted:		
Capital Projects	133,323	90,671
Unrestricted	2,334,059	3,433,948
Total Net Assets	\$ 8,914,773	\$ 8,666,454

See Accompanying Notes to Financial Statements

**MILFORD MUNICIPAL UTILITIES
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	Business-Type Activities	
	2009	2008
Operating Revenues:		
Residential	\$ 1,355,258	\$ 1,416,928
Commercial	759,461	780,619
Demand	527,620	695,542
Tank Lot Water Sales	2,182	5,468
Meter Sales	10,624	14,527
Public Authorities	64,721	67,606
Water Department	27,214	26,714
Neal #4 Credits	220,682	263,208
Diesel Credits	182,647	188,576
Consumer Penalties	3,488	4,672
Miscellaneous Income	31,734	15,063
Total Operating Revenues	3,185,631	3,478,923
Operating Expenses:		
Direct Costs	1,424,076	1,478,052
Operating Expenses	439,956	458,282
Administrative Expenses	882,191	849,500
Total Operating Expenses	2,746,223	2,785,834
Operating Income	439,408	693,089
Non-Operating Income (Expense):		
Interest Income	19,441	78,488
Dividend Income	7,877	8,373
Interest Expense	(218,407)	(179,884)
Total Non-Operating (Expense)	(191,089)	(93,023)
Change in Net Assets	248,319	600,066
Net Assets at Beginning of Year	8,666,454	8,066,388
Net Assets at End of Year	\$ 8,914,773	\$ 8,666,454

See Accompanying Notes to Financial Statements

MILFORD MUNICIPAL UTILITIES
STATEMENT OF FUND NET ASSETS
JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	ASSETS			
	Electric Fund	Water Fund	Total 2009	Total 2008
Current Assets:				
Cash and Cash Equivalents				
Unrestricted, Undesignated	\$ 101,478	\$ -	\$ 101,478	\$ 481,460
Board Designated:				
Improvement and Extension	68,026	153,490	221,516	251,620
Vehicle and Equipment Funds	78,712	48,081	126,793	117,740
Fuel Oil Fund	12,654	-	12,654	33,233
Community Development Fund	103,701	-	103,701	102,954
Accounts Receivable	254,713	108,360	363,073	354,474
Inventory	1,162,542	44,422	1,206,964	750,185
Prepaid Expenses	28,015	33,265	61,280	40,426
Other Receivables	184,263	2,554	186,817	43,302
Total Current Assets	1,994,104	390,172	2,384,276	2,175,394
Noncurrent Assets:				
Purchased Service Rights (at cost)	13,470	-	13,470	13,470
CTS - Acquisition Costs (net)	26,624	-	26,624	32,193
Restricted Assets:				
Consumers' Deposit Fund	63,319	-	63,319	60,793
Revenue Bond Sinking Fund	37,600	26,360	63,960	63,499
Principal and Interest Reserve	-	114,848	114,848	114,021
CTS - Improvement Fund	133,323	-	133,323	90,671
Sewer Fund - District & City	9,983	-	9,983	11,073
Loan Proceeds For Future Capital Improvement	-	325,880	325,880	1,712,351
Emission Allowances	24,938	-	24,938	-
Engine Maintenance	2,000	-	2,000	-
Total Noncurrent Assets	311,257	467,088	778,345	2,098,071
Capital Assets:				
Capital Assets	12,417,302	6,806,640	19,223,942	18,287,884
Accumulated Depreciation	(6,066,046)	(2,571,189)	(8,637,235)	(8,185,545)
Total Capital Assets	6,351,256	4,235,451	10,586,707	10,102,339
Total Assets	\$ 8,656,617	\$ 5,092,711	\$ 13,749,328	\$ 14,375,804

See Accompanying Notes to Financial Statements

MILFORD MUNICIPAL UTILITIES
STATEMENT OF FUND NET ASSETS - Continued
JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

LIABILITIES AND NET ASSETS

	Electric Fund	Water Fund	Total 2009	Total 2008
Current Liabilities:				
Accounts Payable	\$ 226,863	\$ 17,700	\$ 244,563	\$ 627,467
Accrued Employee Benefits	11,397	8,071	19,468	23,007
Accrued Interest	9,185	7,972	17,157	18,502
Accrued Payroll Taxes	2,639	1,698	4,337	4,139
Accrued Sales Tax	5,017	3,401	8,418	8,359
Accrued Property Tax	14,085	-	14,085	14,358
Accrued Wheeling	14,943	-	14,943	8,774
Consumers' Deposits	46,388	-	46,388	44,240
Current Portion of Long-Term Debt	280,398	178,442	458,840	438,549
Total Current Liabilities	610,915	217,284	828,199	1,187,395
Notes Payable:				
Revenue Capital Loan Notes Payable	2,231,257	2,233,939	4,465,196	4,960,504
Less - Current Portion	(280,398)	(178,442)	(458,840)	(438,549)
Total Notes Payable	1,950,859	2,055,497	4,006,356	4,521,955
Total Liabilities	2,561,774	2,272,781	4,834,555	5,709,350
Net Assets:				
Invested in Capital Assets - Net of Related Debt	4,119,999	2,327,392	6,447,391	5,141,835
Restricted:				
Capital Projects	133,323	-	133,323	90,671
Unrestricted	1,841,521	492,538	2,334,059	3,433,948
Total Net Assets	6,094,843	2,819,930	8,914,773	8,666,454
Total Liabilities and Net Assets	\$8,656,617	\$ 5,092,711	\$ 13,749,328	\$14,375,804

See Accompanying Notes to Financial Statements

**MILFORD MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR 2008)**

	Electric Fund	Water Fund	Total 2009	Total 2008
Operating Revenues:				
Residential	\$ 1,004,539	\$ 350,719	\$ 1,355,258	\$ 1,416,928
Commercial	446,724	312,737	759,461	780,619
Demand	527,620	-	527,620	695,542
Tank Lot Water Sales	-	2,182	2,182	5,468
Meter Sales	-	10,624	10,624	14,527
Public Authorities	64,721	-	64,721	67,606
Water Department	27,214	-	27,214	26,714
Neal #4 Credits	220,682	-	220,682	263,208
Diesel Credits	182,647	-	182,647	188,576
Consumer Penalties	2,818	670	3,488	4,672
Miscellaneous Income	16,884	14,850	31,734	15,063
Total Operating Revenues	2,493,849	691,782	3,185,631	3,478,923
Operating Expenses:				
Direct Costs	1,334,602	89,474	1,424,076	1,478,052
Other Operating Expenses	291,437	148,519	439,956	458,282
Administrative Expenses	567,961	314,230	882,191	849,500
Total Operating Expenses	2,194,000	552,223	2,746,223	2,785,584
Operating Income	299,849	139,559	439,408	693,089
Non-Operating Income (Expense):				
Interest Income	12,841	6,600	19,441	78,488
Dividend Income	4,988	2,889	7,877	8,373
Interest Expense	(118,829)	(99,578)	(218,407)	(179,884)
Total Non-Operating (Expense)	(101,000)	(90,089)	(191,089)	(93,023)
Change in Net Assets	198,849	49,470	248,319	600,066
Net Assets at Beginning of Year	5,895,990	2,770,464	8,666,454	8,066,388
Net Assets at End of Year	\$ 6,094,839	\$ 2,819,934	\$ 8,914,773	\$ 8,666,454

See Accompanying Notes to Financial Statements

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**MILFORD MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR 2008)**

	Electric Fund	Water Fund	Total 2009	Total 2008
Cash Flows From Operating Activities:				
Cash Received From Customers	\$ 2,364,376	\$ 669,851	\$ 3,034,227	\$ 3,520,547
Cash Paid to Suppliers	(2,358,140)	(428,887)	(2,787,027)	(1,887,204)
Cash Paid to Employees	(274,656)	(152,954)	(427,610)	(437,371)
Net Cash (Used) Provided By Operating Activities	(268,420)	88,010	(180,410)	1,195,972
Cash Flows From Capital and Related Financing Activities:				
Acquisition and Construction of Capital Assets	(871,716)	(64,341)	(936,057)	(1,351,999)
Revenue Bond Principal Repayment	(325,039)	(170,269)	(495,308)	(407,072)
Revenue Bond Proceeds	-	-	-	1,900,000
Interest Paid	(109,644)	(99,572)	(209,216)	(169,892)
Net Cash (Used) By Capital and Related Financing Activities	(1,306,399)	(334,182)	(1,640,581)	(28,963)
Cash Flows From Investing Activities:				
Proceeds From Redemption of Investments	1,175,969	496,839	1,672,808	768,165
Purchase of Investments	-	(300,000)	(300,000)	(1,660,000)
Interest Received From Investments	17,829	9,489	27,318	92,480
Net Cash Provided (Used) From Investing Activities	1,193,798	206,328	1,400,126	(799,355)
Net Increase (Decrease) in Cash	(381,021)	(39,844)	(420,865)	367,654
Cash at Beginning of Year	745,592	241,415	987,007	619,353
Cash at End of Year	\$ 364,571	\$ 201,571	\$ 566,142	\$ 987,007
Reconciliation:				
Cash and Cash Equivalents				
Unrestricted, Undesignated	\$ 101,478	\$ -	\$ 101,478	\$ 481,460
Board Designated:				
Improvement and Extension	68,026	153,490	221,516	251,620
Vehicle and Equipment Funds	78,712	48,081	126,793	117,740
Fuel Oil Fund	12,654	-	12,654	33,233
Community Development Fund	103,701	-	103,701	102,954
	\$ 364,571	\$ 201,571	\$ 566,142	\$ 987,007

See Accompanying Notes to Financial Statements

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS - Continued
FOR THE YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	Electric Fund	Water Fund	Total 2009	Total 2008
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:				
Operating Income	\$ 299,849	\$ 139,559	\$ 439,408	\$ 693,089
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:				
Depreciation	271,844	181,687	453,531	418,746
Amortization	5,568	-	5,568	5,568
(Increase) Decrease in Operating Assets:				
Accounts Receivable	11,602	(20,201)	(8,599)	42,141
Inventory	(454,921)	(1,860)	(456,781)	(315,617)
Prepaid Expenses	(4,144)	(16,710)	(20,854)	24,764
Other Receivables	(141,785)	(1,730)	(143,515)	(10,011)
Consumer Deposits Fund	(2,526)	-	(2,526)	(7,872)
CTS Improvement Fund	(42,652)	-	(42,652)	9,891
Sewer Fund - District & City	1,090	-	1,090	11,643
Emission Allowances	(24,938)	-	(24,938)	-
Engine Maintenance	(2,000)	-	(2,000)	-
Increase (Decrease) in Operating Liabilities:				
Accounts Payable	(186,741)	(196,163)	(382,904)	315,944
Accrued Employee Benefits	(5,791)	2,252	(3,539)	(166)
Accrued Payroll Taxes	(166)	364	198	2,966
Accrued Sales Tax	(753)	812	59	(1,168)
Accrued Property Tax	(273)	-	(273)	(68)
Accrued Wheeling	6,169	-	6,169	399
Consumer Deposits	2,148	-	2,148	5,723
Net Cash (Used) Provided By Operating Activities	<u>\$ (268,420)</u>	<u>\$ 88,010</u>	<u>\$ (180,410)</u>	<u>\$ 1,195,972</u>

See Accompanying Notes to Financial Statements

**MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements of Milford Municipal Utilities include the Electric and Water enterprise funds which provide services to the residents of the City of Milford. Milford Municipal Utilities is governed by a five-member board of trustees, which is appointed by the Mayor of the City of Milford. Based on the criteria set forth by the Governmental Accounting Standards Board, Milford Municipal Utilities is considered a component unit of the City of Milford. However, the City's audit covers the primary government only; therefore it does not include financial information concerning the Utilities.

For financial reporting purposes, the Milford Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the component unit are such that exclusion would cause the component unit's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (a) the ability of the Utilities to impose its will on that organization or (b) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. Milford Municipal Utilities has no component units.

B. Government-wide Financial Statements

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities, which report information on all of the activities of the Utilities. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Assets reports three categories of net assets:

Invested in Capital Assets, Net of Related Debt – consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted Net Assets – result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – consist of net assets not meeting the definition of the two preceding categories. Unrestricted Net Assets often have constraints on resources imposed by management which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

**MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Fund Financial Statements

Major individual enterprise funds are reported as separate columns in the fund financial statements. The Utilities report the following major enterprise funds:

Electric Fund – The Electric Fund accounts for the operation and maintenance of the electric distribution system.

Water Fund – The Water Fund accounts for the operation and maintenance of the water distribution system.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounts of Milford Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The Utilities' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows

In reporting the financial activity of its enterprise funds, the Utilities applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure

The Utilities distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utilities' principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Utilities considers as cash and cash equivalents all unrestricted currency on hand, demand and other deposit accounts with banks or other financial institutions, and certificates of deposits with an original maturity of three months or less

Accounts Receivable

Accounts receivable and revenue are recorded at the time service is billed. Unbilled revenue for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which service is provided. Accounts are reviewed annually; accounts considered uncollectible are written off at that time. Management believes there are no material uncollectible accounts at June 30, 2009

**MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis. Inventories are recorded as an expenditure or, if applicable, capitalized when used in construction of distribution system.

Capital Assets

Capital assets, which include property, plant and equipment, are stated at cost. The report sets forth the original cost of the assets and accumulated depreciation thereon, based on depreciation rates commensurate with the average normal useful life of the various components of the plant and system. Subsequent additions to the plant and system are recorded on the basis of materials and direct labor costs only and no overhead to cover such items as payroll taxes, materials, handling and transportation has been capitalized. The Utilities accounted for existing infrastructure through the use of an independent engineer's report.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation rates have been applied on a straight-line basis. Estimated useful lives, in years, for depreciable assets are as follows:

Building and plant	20-50
Equipment	7-20
Distribution System	20-67

Other Assets

CTS acquisition costs are being amortized on a straight-line basis over 25 years, and are presented at the net value. Loan costs related to issued capital notes are being amortized on a straight-line basis over 15 years, which approximates the effective interest method, and are presented at the net value.

Current Liabilities

The accrued wheeling and property taxes represent charges for the transmission of power over the power lines.

Compensated Absences

The Utilities employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2009.

**MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. The Utilities' policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Income Taxes

The Utilities is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budgets and Budgetary Accounting

The Board of Trustees of Milford Municipal Utilities submits an annual budget prepared on the accrual basis independent from the City of Milford.

Note 2 – CASH AND CASH EQUIVALENTS AND NONCURRENT INVESTMENTS

The Utilities' deposits in banks at June 30, 2009, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreement; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no assets classified as investments at June 30, 2009.

Interest Rate Risk – The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

Credit Risk – The Utility's investments in Money Market Mutual Funds are unrated.

**MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009 was as follows:

<u>Water Fund</u>	<u>Water Utility Plant</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 58,144	\$ -	\$ -	\$ 58,144
Construction in Progress	146,251	-	(146,251)	-
Total Capital Assets Not Being Depreciated	204,395	-	(146,251)	58,144
Capital Assets Being Depreciated:				
Production Plant:				
Buildings	3,212,918	-	(19,701)	3,193,217
Intakes	79,733	5,677	-	85,410
Equipment	1,104,195	20,021	-	1,124,216
Mains	1,176,279	32,202	-	1,208,481
Wells	198,130	-	-	198,130
Storage and Distribution Plant:				
Towers	319,329	162,290	-	481,619
Mains, Hydrants, and Service	219,540	-	-	219,540
Meters	210,841	9,132	-	219,973
General Plant:				
Tools and Work Equipment	16,939	971	-	17,910
Total Capital Assets Being Depreciated	6,537,904	230,293	(19,701)	6,748,496
Less: Accumulated Depreciation	2,389,502	181,687	-	2,571,189
Total Capital Assets Being Depreciated, net	4,148,402	48,606	(19,701)	4,177,307
Total Capital Assets, net	\$ 4,352,797	\$ 48,606	\$ (165,952)	\$ 4,235,451

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 3 – CAPITAL ASSETS – Continued

<u>Electric Fund</u>	<u>Electric Plant</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 58,654	\$ -	\$ -	\$ 58,654
Construction in Progress	842,609	320,238	(142,713)	1,020,134
Total Capital Assets Not Being Depreciated	901,263	320,238	(142,713)	1,078,788
Capital Assets Being Depreciated:				
Production Plant:				
Building	391,242	10,350	-	401,592
Machinery and Equipment	682,107	7,429	-	689,536
Accessory Electric Equipment	764,155	419,332	-	1,183,487
Neal #4	1,285,289	10,965	(1,839)	1,294,415
Common Transmission System	1,578,989	82,673	-	1,661,662
Distribution Plant:				
Distribution Facilities	5,245,328	80,234	-	5,325,562
Street Lights and Signal Systems	249,151	3,407	-	252,558
General Plant:				
Transportation Equipment	305,026	81,643	-	386,669
Other Equipment	143,033	-	-	143,033
Total Capital Assets Being Depreciated	10,644,320	696,033	(1,839)	11,338,514
Less: Accumulated Depreciation	5,796,041	271,844	(1,839)	6,066,046
Total Capital Assets Being Depreciated, net	4,848,279	424,189	-	5,272,468
Total Capital Assets, net	\$ 5,749,542	\$ 744,427	\$ (142,713)	\$ 6,351,256
Total Business Type Capital Assets, net	\$ 10,102,339	\$ 793,033	\$ (308,665)	\$ 10,586,707

Construction in progress at June 30, 2009 consisted of costs associated with substation and distribution system upgrades.

**MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 3 – CAPITAL ASSETS – Continued

Reconciliation of Investments in Capital Assets in 2009:

	Water Fund	Electric Fund
Total Capital Assets, Net	\$4,235,451	\$6,351,256
Less: Related Debt	<u>1,908,059</u>	<u>2,231,257</u>
Investment in Capital Assets, Net of Related Debt	<u><u>\$2,327,392</u></u>	<u><u>\$4,119,999</u></u>

Capital assets activity for the year ended June 30, 2008 was as follows:

<u>Water Fund</u>	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 37,855	\$ 20,289	\$ -	\$ 58,144
Construction in Progress	-	146,251	-	146,251
Total Capital Assets Not Being Depreciated	<u>37,855</u>	<u>166,540</u>	<u>-</u>	<u>204,395</u>
Capital Assets Being Depreciated:				
Production Plant:				
Buildings	3,212,918	-	-	3,212,918
Intakes	79,733	-	-	79,733
Equipment	1,100,899	3,296	-	1,104,195
Mains	1,169,773	6,506	-	1,176,279
Wells	198,130	-	-	198,130
Storage and Distribution Plant:				
Towers	251,067	68,262	-	319,329
Mains, Hydrants, and Service	219,113	427	-	219,540
Meters	200,095	10,746	-	210,841
General Plant:				
Tools and Work Equipment	16,939	-	-	16,939
Total Capital Assets Being Depreciated	<u>6,448,667</u>	<u>89,237</u>	<u>-</u>	<u>6,537,904</u>
Less: Accumulated Depreciation	<u>2,218,570</u>	<u>170,932</u>	<u>-</u>	<u>2,389,502</u>
Total Capital Assets Being Depreciated, net	<u>4,230,097</u>	<u>(81,695)</u>	<u>-</u>	<u>4,148,402</u>
Total Capital Assets, net	<u><u>\$ 4,267,952</u></u>	<u><u>\$ 84,845</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,352,797</u></u>

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 3 – CAPITAL ASSETS – Continued

<u>Electric Fund</u>	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 32,365	\$ 26,289	\$ -	\$ 58,654
Construction in Progress	13,128	829,481	-	842,609
Total Capital Assets Not Being Depreciated	45,493	855,770	-	901,263
Capital Assets Being Depreciated:				
Production Plant:				
Building	391,242	-	-	391,242
Machinery and Equipment	674,191	7,916	-	682,107
Accessory Electric Equipment	764,155	-	-	764,155
Neal #4	1,285,630	5,131	(5,472)	1,285,289
Common Transmission System	1,512,758	66,231	-	1,578,989
Distribution Plant:				
Distribution Facilities	5,091,777	153,551	-	5,245,328
Street Lights and Signal Systems	228,627	20,524	-	249,151
General Plant:				
Transportation Equipment	305,026	-	-	305,026
Other Equipment	137,333	5,700	-	143,033
Total Capital Assets Being Depreciated	10,390,739	259,053	(5,472)	10,644,320
Less: Accumulated Depreciation	5,553,699	247,814	(5,472)	5,796,041
Total Capital Assets Being Depreciated, net	4,837,040	11,239	-	4,848,279
Total Capital Assets, net	\$ 4,882,533	\$ 867,009	\$ -	\$ 5,749,542
Total Business Type Capital Assets, net	\$ 9,150,485	\$ 951,854	\$ -	\$ 10,102,339

Construction in progress at June 30, 2008 consisted of costs associated with substation and distribution system upgrades.

The Electric Utility's 0.347% ownership interest in George Neal Generating Station No. 4 represents a total investment of \$1,294,415 included in utility plant in service with \$1,039,818 included in accumulated depreciation.

**MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 3 – CAPITAL ASSETS – Continued

Reconciliation of Investment in Capital Assets in 2008:	Water Fund	Electric Fund
Total Capital Assets, Net	\$ 4,352,796	\$ 5,749,543
Less: Related Debt	<u>2,404,208</u>	<u>2,556,296</u>
Investment in Capital Assets, Net of Related Debt	<u>\$ 1,948,588</u>	<u>\$ 3,193,247</u>

Note 4 - LONG-TERM DEBT

A summary of the changes in long-term debt for the year ended June 30, 2009 is as follows:

<u>Water Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Series 2003 Revenue Bonds	\$ 877,550	\$ -	\$ 70,629	\$ 806,921	\$ 76,034
Series 2005 Revenue Bonds	<u>1,526,658</u>	<u>-</u>	<u>99,640</u>	<u>1,427,018</u>	<u>102,408</u>
Total Water Revenue Bonds	2,404,208	-	170,269	2,233,939	178,442
 <u>Electric Fund</u>					
Series 2007 Revenue Bonds	698,074	-	235,422	462,652	186,478
Series 2008 Revenue Bonds	<u>1,858,222</u>	<u>-</u>	<u>89,617</u>	<u>1,768,605</u>	<u>93,920</u>
Total Electric Revenue Bonds	2,556,296	-	325,039	2,231,257	280,398
 Total Revenue Bonds	 <u>\$ 4,960,504</u>	 <u>\$ -</u>	 <u>\$ 495,308</u>	 <u>\$ 4,465,196</u>	 <u>\$ 458,840</u>

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 4 - LONG-TERM DEBT – Continued

A summary of the changes in long-term debt for the year ended June 30, 2008 is as follows:

<u>Water Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Series 2003 Revenue Bonds	\$ 947,903	\$ -	\$ 70,353	\$ 877,550	\$ 73,423
Series 2005 Revenue Bonds	1,622,187	-	95,529	1,526,658	98,154
Total Water Revenue Bonds	2,570,090	-	165,882	2,404,208	171,577
<u>Electric Fund</u>					
Series 2007 Revenue Bonds	897,486	-	199,412	698,074	177,578
Series 2008 Revenue Bonds	-	1,900,000	41,778	1,858,222	89,394
Total Electric Revenue Bonds	897,486	1,900,000	241,190	2,556,296	266,972
Total Revenue Bonds	<u>\$ 3,467,576</u>	<u>\$ 1,900,000</u>	<u>\$ 407,073</u>	<u>\$ 4,960,504</u>	<u>\$ 438,549</u>

The resolutions concerning the issuance of the above noted revenue bonds all include requirements for the Utility to maintain Sinking and Reserve Funds. United Community Bank, the sole owner of the bonds has waived these fund requirements.

Water Fund

On June 24, 2003, the Utility issued a Water Revenue Refinancing Capital Loan Note – Series 2003, in the amount of \$1,200,000. The note bears interest at the rate of 4.25% per annum and matures on August 1, 2004 through February 1, 2019. The monthly payment required is \$8,579, including interest.

On May 25, 2005 the Utility issued Water Revenue Capital Loan Notes in the amount of \$1,800,000. The notes bear interest at 4.25% and mature from December, 2005 to September, 2020 and require monthly payments of \$13,433.

The Series 2003 and Series 2005 Capital Loan Notes are secured by future net revenues of the Water Utility.

**MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 4 - LONG-TERM DEBT – Continued

A summary of the Water Fund's June 30, 2009 long-term indebtedness follows:

	Series 2003 Revenue Bonds		Series 2005 Revenue Bonds	
	Principal	Interest	Principal	Interest
2010	76,034	26,913	102,408	58,788
2011	78,739	24,209	106,846	54,350
2012	81,540	21,408	111,476	49,720
2013	84,440	18,508	116,307	44,889
2014-2018	469,442	45,297	661,658	144,323
2019-2021	16,726	53	328,323	15,997
Total	<u>\$ 806,921</u>	<u>\$ 136,388</u>	<u>\$ 1,427,018</u>	<u>\$ 368,067</u>

Electric Fund

During the year ended June 30, 2007, the Utility issued electric revenue refunding notes in the amount of \$925,000 to refund the about 1997 issue prior to maturity to realize debt service savings due to lower interest rates on the new issue. The note bears interest of 4.90%, and matures monthly from May 1, 2007 to April 1, 2012. The monthly payment required is \$17,443.06, including interest.

During the year ended June 30, 2008, the Utility issued electric revenue notes in the amount of \$1,900,000 for the construction costs related to an improvements and extension to the Municipal Electric Utility. The note bears interest of 4.95%, and matures monthly from February 1, 2008 to January 1, 2013. The monthly payment required is \$14,965.38, including interest. The last monthly payment is a lump sum payment of \$1,429,065, including interest.

A summary of the Electric Fund's June 30, 2009 long-term indebtedness is as follows:

	Series 2007 Revenue Bonds		Series 2008 Revenue Bonds	
	Principal	Interest	Principal	Interest
2010	186,478	22,838	93,920	85,664
2011	195,823	13,493	98,676	80,908
2012	80,351	3,768	103,673	75,911
2013	-	-	1,472,336	41,874
Total	<u>\$ 462,652</u>	<u>\$ 71,837</u>	<u>\$ 1,768,605</u>	<u>\$ 374,548</u>

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 5 - PENSION AND RETIREMENT BENEFITS

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% through June 30, 2008 and 4.10% presently of their annual covered salary and the Utilities are required to contribute 6.05% through June 30, 2008 and 6.35% presently of covered payroll. Contribution requirements are established by State statute. The Utilities contribution to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$23,487, \$23,464, and \$20,565, respectively, equal to the required contributions for each year.

Note 6 - RATES

The Utilities' rates are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

Effective June 20, 2009, the Electric Utility increased user rates for all consumption by 3%.

Note 7 - LEASES

Under a joint ownership agreement with other utilities, the Electric Utility has a 0.347% undivided interest in a 640 MW electric generation station known as George Neal Generating Station No. 4. The Electric Utility leases electrical generation capacity of its share of the Neal 4 plant under operating leases to other utilities or their associations. The revenues from such leases are included in operating income. The Utility's investment in these facilities is included in capital assets in service and is set forth in Note 3. Operating costs associated with this plant and depreciation are reflected in the statement of activities.

Note 8 - RISK MANAGEMENT

Milford Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 9 – COMPENSATED ABSENCES

Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2009.

Note 10 – COMMITMENTS

During 2009, the Electric Utility entered into a construction contract totaling \$339,966 for electric improvements to be completed in the following year. \$178,156 was paid as of June 30, 2009.

Note 11 – SUBSEQUENT EVENT

During 2008, the Electric Utility entered into an agreement to purchase a 2 megawatt ownership in the generating facilities at Sutherland Generating Station Unit 4. In March 2009, Interstate Power and Light Company, an Alliant Energy Company, notified NIMECA of their decision not to continue with plans for construction of the Sutherland Generating Station Unit 4. The Iowa Utility Board did issue the construction permit and Iowa DNR did issue the air quality permit subject to public hearings. The public hearings were cancelled by Interstate Power & Light Company because of their decision to cancel the plant. In September 2009 Interstate Power & Light Company made the decision to refund the land portion of the project totaling \$9,802. Interstate Power & Light Company believes the remaining balance \$132,911 is not owed to the Electric Utility. The Electric Utility and other partners involved in the project believe they are due a complete refund. A dispute still exists as of the date of this report.

During July 2009 the Electric Utility issued \$1,200,000 in Revenue bonds. The proceeds were used to payoff the Series 2007 Revenue Bonds and finish the capital improvement projects.

**MILFORD MUNICIPAL UTILITIES
BUDGETARY COMPARISON SCHEDULE OF
REVENUES, EXPENSES, AND CHANGES IN BALANCES - BUDGET & ACTUAL
FOR THE YEAR ENDED JUNE 30, 2009**

	Actual	Budget	Final to Actual Variance
Receipts:			
Charges For Services	\$ 3,185,631	\$ 3,654,367	\$ (468,736)
Non-Operating	27,318	105,538	(78,220)
Total Receipts	<u>3,212,949</u>	<u>3,759,905</u>	<u>(546,956)</u>
Expenditures:			
Electric	2,312,829	2,769,750	456,921
Water	651,801	659,252	7,451
Total Expenditures	<u>2,964,630</u>	<u>3,429,002</u>	<u>464,372</u>
Net Change in Net Assets	248,319	330,903	(82,584)
Net Assets at Beginning of Year	<u>8,666,454</u>	<u>7,888,215</u>	
Net Assets at End of Year	<u><u>\$ 8,914,773</u></u>	<u><u>\$ 8,219,118</u></u>	

See Accompanying Independent Auditors' Report

**MILFORD MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the utility.

In accordance with the Code of Iowa, Milford Municipal Utilities annually adopt a budget, following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. All Utilities' disbursements are included in business-type activities function. During the year ended June 30, 2009, disbursements did not exceed the amounts budgeted.

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF DIRECT COSTS, OPERATING COSTS, AND
ADMINISTRATIVE EXPENSES FOR THE ELECTRIC FUND
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Direct Costs:		
Distribution Maintenance	\$ 20,298	\$ 13,515
Equipment Maintenance	26,282	32,694
Neal #4 Charges - Coal, Oil, Power Generator	247,109	233,871
Purchased Power	5,721	5,539
Purchased Power - NIMECA	708,340	807,990
Purchased Power - WAPA	309,303	257,891
Wheeling	17,549	17,948
Total Direct Costs	<u>1,334,602</u>	<u>1,369,448</u>
Other Operating Expenses:		
Salaries	236,331	257,632
Small Tools and Supplies	15,794	6,309
Sub-Contractor	4,972	2,934
Vehicle Expense	27,785	26,992
Miscellaneous Operating Expenses	6,555	852
Total Other Operating Expenses	<u>291,437</u>	<u>294,719</u>

**MILFORD MUNICIPAL UTILITIES
SCHEDULE OF DIRECT COSTS, OPERATING COSTS, AND
ADMINISTRATIVE EXPENSES FOR THE ELECTRIC FUND
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Administrative Expenses:		
Advertising	\$ 227	\$ -
Amortization	5,568	5,568
Bad debts	2,536	4,442
Building Maintenance - Office	12,384	10,851
Building Maintenance - Mowing	3,042	3,491
Community Development	3,598	4,639
Computer Repairs and Maintenance	2,862	1,000
Computer Supplies and Programs	3,629	1,840
Depreciation	271,844	247,814
Director Fees	3,393	3,724
Dues and Subscriptions	6,039	5,594
Education and Safety	292	1,950
Employee Benefits	31,608	39,802
Insurance - General	31,959	32,914
Laundry and Uniforms	1,297	844
Legal and Professional	32,982	23,572
Maintenance - Office Equipment	170	516
Miscellaneous	693	695
Office Supplies	8,944	9,322
Payroll Taxes - FICA and IPERS	32,368	34,590
Postage	5,846	5,426
Property Taxes	15,289	15,566
Rebates	21,784	5,150
Supplies	309	287
Sales Tax Paid	62,633	79,147
Telephone	3,126	4,481
Travel	1,443	2,758
Utilities and Sanitation	314	352
Inventory Adjustment	1,782	1,179
Total Administrative Expenses	<u>567,961</u>	<u>547,514</u>
 Total	 <u><u>\$ 2,194,000</u></u>	 <u><u>\$2,211,681</u></u>

**MILFORD MUNICIPAL UTILITIES
SCHEDULE OF DIRECT COSTS, OPERATING COSTS, AND
ADMINISTRATIVE EXPENSES FOR THE WATER FUND
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Direct Costs:		
Distribution Maintenance	\$ 7,082	\$ 1,085
Equipment Maintenance	11,624	11,640
Lab	10,735	8,481
Plant Maintenance	1,079	22,636
Product - Chlorine and Flouride	26,293	34,127
Purchased Power	27,214	26,714
Sewer Charges	5,447	3,921
Total Direct Costs	<u>89,474</u>	<u>108,604</u>
Other Operating Expenses:		
Salaries	136,589	130,193
Small Tools and Supplies	1,220	1,841
Sub-Contractor	7,918	27,481
Vehicle Expense	2,792	3,564
Miscellaneous Operating Expenses	-	484
Total Other Operating Expenses	<u>148,519</u>	<u>163,563</u>

**MILFORD MUNICIPAL UTILITIES
SCHEDULE OF DIRECT COSTS, OPERATING COSTS, AND
ADMINISTRATIVE EXPENSES FOR THE WATER FUND
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Administrative Expenses:		
Bad debts	\$ 408	\$ 394
Building Maintenance - Office	679	430
Building Maintenance - Mowing	3,065	3,541
Community Development	214	95
Computer Repairs and Maintenance	3,277	2,266
Computer Support & Programming	313	-
Depreciation	181,687	170,932
Director Fees	2,450	2,325
Dues and Subscriptions	335	2,010
Education and Safety	638	543
Employee Benefits	22,028	22,337
Insurance - General	21,847	20,131
Laundry and Uniforms	670	725
Legal and Professional	10,006	8,624
Maintenance - Office Equipment	170	549
Miscellaneous	9	-
Office Supplies	8,643	8,540
Payroll Taxes - FICA and IPERS	18,981	17,756
Postage	5,539	6,006
Supplies	158	176
Sales Tax Paid	30,999	31,331
Telephone	1,150	1,712
Travel	-	6
Utilities and Sanitation	159	146
Inventory Adjustment	805	1,161
Total Administrative Expenses	<u>314,230</u>	<u>301,736</u>
 Total	 <u><u>\$ 552,223</u></u>	 <u><u>\$ 573,903</u></u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

Board of Trustees
Milford Municipal Utilities
Milford, IA 51351

We have audited the financial statements of the Milford Municipal Utilities as of and for the year ended June 30, 2009, and have issued our report thereon dated October 29, 2009. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Milford Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Milford Municipal Utilities' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the utilities' financial statements that is more than inconsequential will not be prevented or detected by the utilities' internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above, items I-A-09 and I-B-09, are a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Milford Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Milford Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utilities' responses, we did not audit the Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Milford and other parties to whom the Milford Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Milford Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Williams & Company, P.C.

Certified Public Accountants

Spencer, Iowa
October 29, 2009

**MILFORD MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009**

Part I: Findings Related to the Financial Statements

I-A-09 Segregation of Duties – During our review of internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the Utilities' financial statements

Recommendation – We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Board maintain their diligence in the review of the financial records.

Response – We will continue our review.

Conclusion – Response accepted.

I-B-09 Financial Reporting – During the audit, we identified adjustments which could result in material amounts of capital asset additions and depreciation not recorded in the Utilities' financial statements. Adjustments were subsequently made by the Utilities' to properly include these amounts in the financial statements.

Recommendation – The Utility should implement procedures to ensure all capital asset additions and depreciation are identified and included in the financial statements in the future.

Response – We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion – Response accepted.

**MILFORD MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009**

Part II: Other Findings Related to Required Statutory Reporting

- II-A-09 Certified Budget – Disbursements during the year ended June 30, 2009 did not exceed the amounts budgeted in the business type activities function.
- II-B-09 Questionable Disbursements – No expenditures were noted which did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-09 Travel Expense – No expenditures of the Utilities' money for travel expenses of spouses of Utilities' officials or employees were noted.
- II-D-09 Business Transactions – Business transactions between the Utilities and Utilities' officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
James Studer, Trustee Owner, Excel Auto Body, Ltd.	Maintenance	\$ 179

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Trustees do not appear to represent conflicts of interest, since total transactions with each Trustee did not exceed \$1,500 during the fiscal year.

- II-E-09 Bond Coverage – Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-09 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-09 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.
- II-H-09 Revenue Notes – The Utilities has complied with the water and electric revenue note provisions or has received a waiver of the requirements from the holder of the notes.